

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00

COME-00 DODE-00 DOE-15 H-01 INR-10 INT-05 L-03

NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-07 SP-02

SS-15 STR-07 TRSE-00 ACDA-12 PA-01 AF-10 ARA-10

EUR-12 NEA-11 /170 W

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 9317

INFO AMEMBASSY BANGKOK

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMCONSUL MEDAN

AMEMBASSY SINGAPORE

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 7568

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: INDONESIA'S 1978 CRUDE EXPORTS REMAIN HIGH

1. SUMMARY: INDONESIA CRUDE OIL EXPORTS IN 1978 ARE AT ABOUT SAME LEVEL AS IN CORRESPONDING PERIOD 1977. THE SHARE GOING TO US HAS DECREASED SOMEWHAT, BUT THIS HAS BEEN COMPENSATED BY INCREASING EXPORTS TO JAPAN AND OTHER COUNTRIES. IN GENERAL, INDONESIA'S MARKETING DIFFICULTIES IN 1978 HAVE BEEN OVERPLAYED ALTHOUGH PROBLEMS LATER IN YEAR COULD MATERIALIZE. PERTAMINA IS CONCERNED ABOUT POSSIBLE FURTHER REDUCTIONS IN US DEMAND FOR LOW SULPHUR OIL, BUT BELIEVES IT CAN GET THROUGH 1978 WITHOUT SHUTTING IN ANY PRODUCTION. IN CONTRAST TO CRUDE, INDONESIA ALREADY IS HAVING REAL TROUBLE SELLING LOW SULPHUR WAXY RESIDUE (LSWR), AND AS RESULT, HAS CLOSED PAKNING REFINERY. END SUMMARY.

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2. ACCORDING TO PERTAMINA AND MIGAS FIGURES, INDONESIA CRUDE OIL EXPORTS HAVE NOT YET BEEN REDUCED BELOW MAXIMUM POTENTIAL BY WORLD OIL SURPLUS OR BY LOWER THAN EXPECTED DEMAND ON US WEST COAST. FOLLOWING ARE PERTAMINA FIGURES FOR THE FIRST FOUR MONTHS IN 1978

1978	U.S.	JAPAN	TOTAL
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JANUARY	407,000	564,000	1.184
FEBRUARY	503,000	664,000	1.372
MARCH	360,000	633,000	1.348
APRIL	570,000	474,000	1.299

THESE COMPARE WITH 1977 AVERAGE DAILY EXPORTS OF 1.33 MILLION BARRELS A DAY. WHILE MARKETING PROBLEMS MAY MATERIALIZE LATER IN YEAR, IT APPEARS TO DATE THAT INDONESIAN EXPORTS ARE HOLDING UP WELL.

3. PERTAMINA BELIEVES WEST COAST DEMAND FOR INDONESIAN OIL WILL BE WEAK FOR SOME TIME INTO THE FUTURE AND RECOGNIZES THE TOUCH AND GO NATURE OF MARKETING THERE FOR REMAINDER OF 1978. PERTAMINA HAS BEEN ASSISTED IN SELLING OIL BY US COMPANIES OPERATING IN INDONESIA, MAINLY CALTEX. WITHOUT THIS HELP, IT IS PROBABLE SOME SHUT IN CAPACITY WOULD HAVE ALREADY OCCURED. WE DO NOT BELIEVE PERTAMINA HAS DISCOUNTED OIL, ALTHOUGH THERE MAY BE SOME ARRANGEMENT TO COMPENSATE CALTEX FOR ITS MARKETING SERVICES. IF SO, IT IS PROBABLY IN NATURE OF EXTENDED PAYMENT TIME AND WOULD NOT AMOUNT TO MORE THAN 10 CENTS A BARREL.

4. IN ADDITION TO THE ECONOMIC DIFFICULTIES OF MARKETING OIL, PERTAMINA AND GOI ARE UNEASY ABOUT THE REPORTS THAT USG MAY BE CONSIDERING SPECIAL TARIFFS OR QUOTAS ON OIL
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IMPORTS INTO US WEST COAST REGITN ONLY. THEY UNDERSTAND THE POLITICAL COMPLEXITIES OF ALASKAN CRUDE, BUT ARE FEARFUL US MAY ATTEMPT TO SOLVE THIS PROBLEM AT INDONESIA'S EXPENSE.

5. IN CONTRAST TO THE US, THE STABILITY AND PERHAPS GROWTH OF THE JAPANESE MARKET FOR INDONESIAN CRUDE WAS UNDERSCORED BY MITI MINISTER KOMOTO DURING HIS MAY VISIT TO JAKARTA. KOMOTO TOLD GOI THAT JAPAN WOULD NOT REDUCE ITS IMPORTS OF INDONESIAN OIL. INDONESIAN OFFICIALS TAKE THIS AS SHORT-RUN ASSISTANCE TO HELP INDONESIA THROUGH PERIOD OF WORLD OIL SURPLUS AND HOPE IT IMPLIES A LONGER RUN COMMITMENT THAT ANY INCREASE IN JAPANESE IMPORTS OF CHINESE OIL WILL NOT BE AT EXPENSE OF INDONESIA'S MARKET SHARE. IMPACT OF KOMOTO'S STATEMENT IS MAINLY PSYCHOLOGICAL AND THERE ARE NOT CURRENT PLANS TO ESTABLISH A MECHANISM TO GIVE IT SUBSTANCE.

6. WHILE CRUDE EXPORTS REMAIN HIGH, INDONESIA IS ALREADY HAVING CONSIDERABLE DIFFICULTIES IN EXPORTING LSWR. IN MARCH, THE STORAGE TANKS IN SOME REFINERIES WERE NEARLY FULL OF LSWR AND THERE WERE FEARS OF POSSIBLE CUTBACKS IN OIL PRODUCTION.

7. IN LATE MARCH AND APRIL, CALTEX HELPED PERTAMINA MOVE SUBSTANTIAL QUANTITIES OF LSWR AND PERTAMINA REPORTEDLY CUT THE PRICE EQUIVALENT OF 40 CENTS A BARREL. THIS HELPED REDUCE STORAGE IN REFINERIES, BUT WAS INSUFFICIENT TO PERMIT CONTINUED PRODUCTION OF UP TO 140,000 BARRELS A DAY OF LSWR. PERTAMINA THEN DECIDED TO CLOSE PAKNING REFINERY (50,000 BARRELS A DAY) AND REDUCED LSWR OUTPUT TO ABOUT 90,000 BARRELS A DAY, WHICH TO DATE HAS BEEN MARKETING REGULARLY.

8. THE CLOSING OF THE PAKNING REFINERY HAS INCREASED INDONESIA'S NEED FOR IMPORTS OF MIDDLE DISTILLATES MAINLY KEROSENE. SO FAR INCREASED IMPORTS FROM SINGAPORE
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AND MIDDLE EAST HAVE MET THIS DEMAND. THERE ARE REPORTS THAT PERTAMINA AND TAIWAN ARE DISCUSSING PLANS TO BARTER INDONESIAN CRUDE OIL FOR TAIWAN KEROSENE.

9. THE UNSETTLED MARKET SITUATION REGARDING BOTH OIL AND LSWR HAS CAUSED RUMORS ABOUT SPECIAL OIL DEALS WITH EMBASSY BEING CONTACTED SEVERAL TIMES BY PROSPECTIVE DEALERS FOR ADVICE. TO OUR KNOWLEDGE, NONE OF THESE "DEALS" HAS MATERIALIZED, ALTHOUGH THE PERSISTENCE OF RUMORS HAS LED PERTAMINA PRESIDENT HARYONO TO STATE PUBLICLY THAT NO INDONESIAN OIL WILL BE SOLD OUTSIDE OF PERTAMINA CHANNELS.
MASTERS

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